

# CRS Report for Congress

## U.S. Clothing and Textile Trade with China and the World: Trends Since the End of Quotas

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# U.S. Clothing and Textile Trade with China and the World: Trends Since the End of Quotas

## Summary

The elimination of the last set of quotas of the Agreement on Textiles and Clothing (ATC) on January 1, 2005, ostensibly brought about the end of decades of quantitative restrictions on the international exchange of clothing and textiles. Trade analysts around the world expected that the final lifting of import limits would foster increased growth in clothing and textile trade, as well as a restructuring of clothing and textile production. In particular, some market watchers predicted a dramatic shift of clothing and textile production to China at the expense of many other nations.

For the U.S. domestic market, the end of the ATC quotas was expected to bring about three major changes. First, there would be a sharp increase in U.S. clothing and textile imports. Second, there would be a major shift in sourcing clothing and textile imports to China. Third, the influx of clothing and textile imports was expected to have a deleterious effect on the U.S. clothing and textile industry. Fourth, because of the anticipated negative impact on the U.S. clothing and textile industry, there was a belief that the U.S. government would make use of various trade remedies to fend off the rising tide of clothing and textile imports.

The events of the first two years of post-ATC quotas — 2005 and 2006 — both confirmed and contradicted the experts' predictions. The global clothing and textile market did grow faster over the last two years than before, but there has not been the anticipated sharp shift in production to China. Similarly, while U.S. clothing and textile imports continued to grow in 2005 and 2006, it is unclear if the end of the ATC quotas was the main cause of that growth. In addition, while anecdotal evidence from the U.S. clothing and textile industry indicates greater competition from China, trade data and industry production levels do not reveal clear evidence that the termination of the ATC was a major contributing factor to the recent loss of employment in the U.S. clothing and textile industry.

One major factor complicating analysis of post-ATC clothing and textile trade was the decision by the United States (and the European Union) to utilize available trade remedies to forestall the impact of end of quantitative restrictions on clothing and textile trade. After the United States imposed safeguard measures in 2004 and 2005, China and the United States negotiated a "memorandum of understanding" that continued quotas on selected items until 2008.

For Congress, post-ATC clothing and textile trade has raised several issues it may choose to consider. First, Congress may consider modifying current trade remedy laws, particularly those dealing with safeguard measures and countervailing duties. Second, Congress may wish to examine in more detail the impact of the end of the ATC quotas on the U.S. clothing and textile industry. Third, Congress may also consider examining the effectiveness of various trade preference programs, especially as they relate to clothing and textiles.

This report will be updated as circumstances require.

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# U.S. Clothing and Textile Trade with China and the World: Trends Since the End of Quotas

The termination of over 40 years of quotas on January 1, 2005, ushered in a new era for the global trade in clothing and textiles.<sup>1</sup> An ad hoc multilateral system of quotas — originally established as a short-term measure to allow the United States and western Europe to adjust to emerging competition from other parts of the world — was finally coming to an end. After 10 years of transition under the World Trade Organization's (WTO) Agreement on Textiles and Clothing (ATC), international trade for clothing and textiles among WTO members was to be no longer subject to quantity restrictions.

Precisely how the end of quotas would affect U.S. clothing and textile trade was the subject of extensive research and some uncertainty. While many studies predicted a shift in clothing and textile production to quota-constrained nations (i.e. those which reached or came close to their quotas), there was disagreement on the size and pace of the production shift. Nor was there consensus on which nations would suffer a decline in their clothing and textile exports as a consequence of the end of the ATC.

Despite their differences in opinion on the overall impact of the end of the ATC, most studies concurred that one of the biggest beneficiaries would be the People's Republic of China (China). With its large pool of low-cost skilled workers and abundant industrial capacity, China would be able to take advantage of the clothing and textile trade opportunities created by the removal of quotas.

However, the ability of China to expand its clothing and textile exports to the United States faced some constraints. Under the terms of China's WTO accession, the United States and other WTO members retained the option to impose safeguard measures on Chinese clothing and textiles exports if they were proving "disruptive" to the domestic U.S. clothing and textile markets. Plus, if the United States could demonstrate that China's clothing and textiles exports were being subsidized in an inappropriate manner or sold below cost, the United States could impose countervailing or antidumping duties under existing U.S. trade remedy laws on Chinese exports.

This report examines recent trade statistics to ascertain the initial effects of the end of quotas on U.S. clothing and textile trade with China and the rest of the world.

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<sup>1</sup> For purposes of this report, trade in clothing (or apparel) will refer to trade in merchandise in chapters 61, 62, and 63 of the Harmonized System (known as the Harmonized Tariff System in the United States), and trade in textiles will refer to trade in merchandise in chapters 50 to 60 of the Harmonized System.

## History of the Agreement on Textiles and Clothing (ATC)

The international trade in textiles and clothing has long been subject to various forms of trade restrictions, including quotas. Over the last 40 years, there has been a gradual reduction of these trade barriers, generally under the auspices of either the WTO, or its predecessor, the General Agreement on Trade and Tariffs (GATT).

### Genesis of the ATC

In 1974, about 40 nations became parties to the Multifibre Arrangement, or MFA, which replaced the Long Term Agreement Regarding International Trade in Cotton Textiles (LTA) signed under GATT in 1962.<sup>2</sup> Originally conceived as a short-term arrangement on the road to quota-free trade for clothing and textiles, the MFA expanded the scope of the LTA to include wool and man-made fibers.

However, concerns about the economic well-being of domestic clothing and textile manufacturers in both more industrialized countries (including the United States) and less industrialized countries made it difficult to negotiate an end to the MFA. As a result, the agreement was renegotiated four times over the next 20 years, continuing the history of trade restraints on clothing and textiles.

In 1995, the Agreement on Textiles and Clothing (ATC) replaced the MFA, starting a 10-year process of eliminating quotas for international trade in clothing and textiles. The ATC's quota phase-out contained two concurrent mechanisms designed to gradually eliminate quantitative restrictions on clothing and textile trade. In theory, this gradual transition period would allow clothing and textile manufacturers enough time to prepare for the more competitive global market of the post-ATC era.

**Table 1. Quota Phase-Out Mechanisms of the ATC**

Date	Accumulated Share of Clothing and Textiles Trade without Quotas	Increase in Size of Quota for Clothing and Textile Trade Still Subject to Quotas
1/1/95	16%	16%
1/1/98	33%	25%
1/1/02	51%	27%
1/1/05	100%	full integration

The two concurrent mechanisms of the ATC quota phase-out involved the elimination of quotas in four stages along with the simultaneous increase in quota

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<sup>2</sup> The LTA itself replaced a prior multilateral agreement known as the "Short Term Arrangement regarding International Trade in Cotton Textiles," which was in effect from 1961 to 1963.

limits for goods still under constraint (see **Table 1**). At the start of the years 1995, 1998, 2002 and 2005, parties to the ATC would eliminate quotas for a prescribed percentage of their volume of trade in clothing and textiles. In addition, for those products still subject to quotas, parties to the ATC would increase the quotas by a prescribed percentage, thereby opening their domestic markets to more imported goods. The ATC also required that products from different categories — textiles and clothing, wool, cotton or man-made fibres, etc. — be included in each of the four stages of the quota phase-out, in part to make it more difficult to protect a particular segment of the clothing and textile industry during the transition.

While the quota phase-out process appeared relatively gradual in theory, it was relatively abrupt in practice. By selecting less traded products and/or products with under-utilized quotas for integration in the first three stages, market watchers maintain the United States and other nations were able to prolong the period of protection for product categories where domestic manufacturers held a larger market share until the final stage. Industry analysts, at times, referred to the final quota phase-out on January 1, 2005 as a “cliff,” when the quota on the most of the more frequently traded products and the products where existing quotas were typically fully utilized would be lifted.<sup>3</sup>

The creation of the supposed quota “cliff” was considered both a benefit and a problem for domestic manufacturers. If companies fully utilized the 10-year window to make their operations more competitive and cost-efficient, the maximization of the transition period would reduce the potential shock of operating in a quota-free market. However, if companies procrastinated making adjustments, the “cliff” only provided the companies with a longer period of protection, and potentially a greater shock with the quotas were lifted.

## Mitigating Factors

The potential impact of the ATC on liberalizing clothing and textile trade is mitigated by three factors. First, the ATC was limited only to the removal of quotas; parties to the agreement could continue to impose import tariffs on clothing and textiles. If a nation set its import tariffs comparatively high, then some foreign companies may still be kept out of the nation’s clothing and textile market, and the domestic manufacturers may still be protected.

**Tariffs.** The current U.S. tariff rates for clothing and textiles indicate that there may be some efforts to erect import barriers on a selective basis (see **Table 2**). Within the general tariff rates<sup>4</sup> for each of the 14 chapters included in clothing and textiles, there is significant variation from product to product, creating a fairly wide range of tariffs levied on clothing and textile imports. In addition, within each

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<sup>3</sup> For example, an article in Dollars & Sense magazine (September/October 2005) on the end of the ATC quotas was entitled, “Falling Off a Cliff,” alluding to both the potential negative effects on smaller clothing exporting nations and the structuring of the quota removal.

<sup>4</sup> “General tariff rate” is the rate levied upon imports from countries granted normal trade relations status.

chapter, the United States has “peak” tariff rates that may be imposed on imports in special circumstances.

**Table 2. U.S. General and Peak Tariff Rates for Clothing and Textile Imports**

HS Chapter	General Tariff Rate Range	Peak Tariff Rate
50	0.0 - 3.9%	90.0%
51	2.7 - 25.0%	80.0%
52	0.0 - 14.5%	90.0%
53	0.0 - 14.5%	90.0%
54	0.0 - 25.0%	83.5%
55	0.0 - 25.0%	81.0%
56	0.0 - 14.1%	90.0%
57	0.0 - 8.0%	60.0%
58	0.0 - 20.2%	90.0%
59	0.0 - 14.1%	88.5%
60	0.0 - 18.5%	113.5%
61	0.0 - 32.0%	90.0%
62	0.0 - 27.9%	90.0%
63	0.0 - 20.9%	103.0%

Source: U.S. International Trade Commission

For all but one of the chapters, the lowest general tariff rate levied is zero percent. However, the highest general tariff rate ranges from a 3.9% to 32.0%. In addition, the peak tariff rate varies across the chapters from 60.0% to 113.5%. These general and peak tariff rates are comparatively high for the United States, indicating a general pattern of protection for the clothing and textile market. In addition, the imposition of higher tariffs on specific items within each chapter is also indirect evidence of an effort to restrain the import of certain clothing and textile products.

**Safeguard Measures.** Second, the ATC’s impact is mitigated because it does not prevent countries from utilizing “safeguard measures,” as well as antidumping and countervailing duty cases, to block imports. A proposal in 2005 from 15 less industrialized countries to the WTO’s Council of Trade in Goods calling for a two-year moratorium on antidumping cases after the termination of the ATC was unable to secure the needed consensus, in part due to objections from U.S. and European clothing and textile manufacturers.

**Special Provisions of China’s WTO Accession.** Third, as part of its accession to WTO membership in December 2001, China agreed to special

provisions that allowed other WTO members to utilize two safeguard mechanisms against Chinese clothing and textile products if the importing country believes that the Chinese imports are causing or threatening to cause domestic “market disruption.”<sup>5</sup> The first safeguard mechanism is unique as it applies only to clothing and textile products; a second general safeguard mechanism applies to all Chinese exports.

The clothing and textile specific safeguard mechanism can be invoked by any WTO member by requesting consultation with China. The simple act of requesting consultation immediately imposes a quota on the product equal to 6% or 7.5% more than the amount imported over the previous 12 months. Even if there is no agreement with China on the safeguard measure, the WTO member has the option to continue to enforce the import quota. There is no requirement for WTO notification; nor are there provisions for multilateral surveillance. These quotas can only be imposed for one-year without China’s agreement. This safeguard mechanism is only available until December 31, 2008. The Brazil, Colombia, the European Union and the United States have made use of this provision.

The general safeguard mechanism is available until December 10, 2013. In this case, the WTO member must notify the WTO’s Committee on Safeguards. In contrast to the first safeguard mechanism, safeguard measures may only be imposed after consultations, or in critical circumstances where provisional measures are considered justified. Also, for this category of safeguard measures, the WTO member has the option of imposing quotas, tariffs or other forms of import restrictions. Plus, whereas the clothing and textile specific measures are limited to 12 months, the general safeguard measures can be imposed for up to three years.

Because of the possible utilization of various safeguard mechanisms, and the continued option to maintain tariffs and other non-tariff trade barriers, the ATC did not fully bring about “free trade” for clothing and textiles. Instead, it eliminated one mechanism — and arguably the main mechanism — whereby countries altered trade patterns for clothing and textiles. As a result, it was reasonable to expect a significant change in the international trade in clothing and textiles after the termination of the all ATC quotas on January 1, 2005.

## **Prognostications for Post-ATC Trade**

Not surprisingly, there were a number of studies done to predict what would happen to the international trade in clothing and textiles after the elimination of quotas prior to the termination of the ATC on January 1, 2005.<sup>6</sup> These studies

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<sup>5</sup> For more information on the China safeguards, see CRS Report RL32168, *Safeguards on Textile and Apparel Imports from China*, by Vivian C. Jones.

<sup>6</sup> Among these studies are: U.S. International Trade Commission, “Textile and Apparel” Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market,” Publication 3671, January 2004; “The Agreement on Textiles and Clothing: Impact on U.S. Cotton,” by Stephen MacDonald, Agapi Somwaru, Leslie Meyer, and Xinshen Diao, Cotton (continued...)

generally agreed that there would be shift in production to quota-constrained countries, but differed on the amount and speed of the shift. China was repeatedly cited in these studies as a major beneficiary of the termination of quotas.

In summary, there was a fairly broad consensus on several aspects of clothing and textile trade after the termination of the ATC. Analysts generally agreed that:

- global trade in clothing and textiles would grow more quickly after the removal of quotas;
- China and India would increase their market shares for both clothing and textile exports, but there was no consensus on the amount of this increase, estimates for China varied from 3% to 10%;
- The United States would import more of its clothing and textiles from China, ranging from one-third two-thirds of its imports;
- U.S. clothing and textile manufacturers would reduce their operations, shut down factories and lay off workers due to increased competition from China, India and other suppliers; one study estimated up to 630,00 job losses due to Chinese imports;
- Preferential trade arrangements may buffer the impact of the quota removal for clothing and textile manufacturers in the Caribbean, South and Central America, the Middle East and Africa;
- There is a possibility that the United States, the EU and other WTO members may impose trade remedies in response to the increase in imports from China, India and other Asian suppliers.

## Changes in Global Trade Flows

Global trade figures for clothing provide partial confirmation of the experts' predictions for gains for China and India in post-ATC trade (see **Table 3**).<sup>7</sup> Between 2004 and 2005, total clothing exports increased by almost \$16.5 billion, or 6.4%. China's clothing exports, however, rose by \$12.3 billion — an increase of 19.9%. India's clothing exports in 2005 also rose substantially, up \$1.7 billion, or 25.0%

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<sup>6</sup> (...continued)

and Wool Situation and Outlook (CWS-2001), Economic Research Service, USDA, November 2001; "The Global Textile and Clothing Industry Post the Agreement on Textiles and Clothing," by Hildegunn Kyvik Nordås, World Trade Organization, Discussion Paper No. 5, 2004; The American Textile Manufacturers Institute, "The China Threat to World Textile and Apparel Trade," 2003; "TNC and the Removal of Textiles and Clothing Quotas," by Richard P. Appelbaum, United Nations Conference on Trade and Development (UNCTAD), 2005; and "Textiles and Clothing Uncertainties Before and After the Quota Phase-Out," by Matthais Knappe, International Trade Centre, UNCTAD/WTO, 2004.

<sup>7</sup> 2006 data were unavailable at the time this report was written

over the year before. No other major clothing exporter experienced growth of over \$1 billion between 2004 and 2005.<sup>8</sup> Together, China and India captured nearly 85% of the increase in clothing trade between 2004 and 2005.

**Table 3. Major Clothing Exporting Nations, 2004 and 2005**  
(U.S.\$ Millions)

Exporter	2004	2005	Growth	Share of Growth
China	61,856	74,163	12,306	74.6%
India	6,632	8,290	1,658	10.1%
Bangladesh	5,686	6,418	731	4.4%
Indonesia	4,454	5,106	652	4.0%
Turkey	11,193	11,818	625	3.8%
Vietnam	4,441	4,805	364	2.2%
United States	5,059	4,998	-61	-0.4%
Romania	4,717	4,627	-90	-0.5%
Mexico	7,490	7,271	-219	-1.3%
Hong Kong*	8,138	7,231	-907	-5.5%
Rest of the World	139,481	140,913	1,432	8.7%
<b>TOTAL</b>	<b>259,147</b>	<b>275,639</b>	<b>16,492</b>	

**Source:** World Trade Organization, *International Trade Statistics*, 2006.

\*Hong Kong figure only includes domestic exports (not re-exports)

Among the major clothing exporters, the losers were Hong Kong, Mexico, Romania and the United States. Hong Kong's domestic exports of clothing decreased by just over \$900 million between 2004 and 2005, a decline of 11.1%. Mexico's clothing exports slipped 2.9%. Romania experienced a slight decline of a little over \$90 million, while U.S. clothing exports dipped by about \$61 million.

For the initial year of the post-ATC era, global trade in clothing appears to be less a story of shifting production as one of emerging centers of growth. While South Korea and Taiwan, both modest exporters of clothing when the ATC was in effect, experienced export declines of 23.9% and 20.0% respectively, most of the major clothing exporters did not see a sharp drop in their exports. Instead, they witnessed modest export increases, while most of the growth in clothing trade was concentrated in China and to a lesser extent, India.

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<sup>8</sup> For this report, trade figures for the European Union (EU) are divided among the member countries. So, while the 25 EU members as a group increased their clothing exports by \$3.5 billion in 2005, none of the individual members increased their exports by more than \$1.0 billion.

Global textile trade experienced a similar change as clothing, but with more major winners and a different group of losers (see **Table 4**). China's year-on-year increase in textiles exports is nearly exactly as much as the global growth in textiles trade for 2005. Pakistan and India also enjoyed double-digit growth in their textile exports, and Turkey and United States experienced more modest gains that kept them in pace with global textile trade growth.

**Table 4. Major Textile Exporters, 2004 and 2005**  
(U.S. \$ Millions)

	2004	2005	Growth	Share of Growth
China	33,428	41,050	7,622	100.5%
Germany	14,028	12,471	-1,558	-20.5%
United States	11,989	12,380	390	5.1%
South Korea	10,839	10,391	-448	-5.9%
Taiwan	10,038	9,706	-332	-4.4%
India	7,009	7,851	841	11.1%
Belgium	7,670	7,457	-213	-2.8%
Pakistan	6,125	7,088	963	12.7%
Turkey	6,429	7,068	639	8.4%
France	7,414	6,920	-494	-6.5%
Japan	7,138	6,905	-232	-3.1%
Rest of World	73,272	73,681	409	5.4%
TOTAL	195,378	202,966	7,588	

However, several traditional textile exporting nations saw significant declines in their export totals in 2005. Germany, the second largest textile exporter in 2004, saw their exports decline by 11.1% in 2005, barely holding onto its number two status. South Korea's textiles exports slipped by 4.1% between 2004 and 2005, while Japan and Taiwan had their exports diminish by 3.3%. Belgium and France also experienced minor falloffs in their textile exports in 2005.

In summary, although both clothing and textile production did shift to China and India in 2005, it was not as dramatic a shift as some experts had predicted. Instead, the data appears to indicate that existing clothing and textile operations continued to produce and export in 2005 at about the same levels that they did in 2004. However, increases in production tended to occur in China and in India.

## U.S. Clothing and Textile Trade with China and the World

As indicated in **Table 3** and **Table 4**, the United States remains a major exporter of both clothing and textiles. It is also a major importer of both clothing and textiles (see **Table 5**). According to the World Trade Organization (WTO), the United States imported over \$80 billion in clothing and nearly \$23 billion in textiles in 2005, more than any other WTO member in both categories.<sup>9</sup>

One significant difference between the global and U.S. clothing and textile trade is the relative size of the two markets. For the global market, the trade in textiles is roughly three-quarters the size of trade in clothing. However, in the U.S. market, total trade in textiles is about two-fifths the size of total trade in clothing, and the value of U.S. clothing imports is about four times the size of textile imports.

**Table 5. U.S. Net Trade Flows for Clothing and Textiles**  
(U.S. \$ Billion)

	2004			2005		
	Exports	Imports	Balance	Exports	Imports	Balance
Clothing	5.1	75.7	-70.7	5.0	80.1	-75.1
Textiles	12.0	20.7	-8.7	12.4	22.5	-10.1
Total	17.1	96.4	-79.3	17.4	102.6	-85.2

**Source:** WTO, *International Trade Statistics 2006*.

In addition, the United States runs a trade flow deficit for both textiles and clothing, despite being a major exporter for both product categories. In 2004, the U.S. trade deficit for clothing and textiles combined was over \$79 billion, or 10.3% of its total trade deficit for the year. In 2005, the clothing and textile deficit exceeded \$85 billion, or 10.4% of the year's merchandise trade deficit.

**Table 5** also implies that the United States did not experience a major surge in clothing and textile imports as a consequence of the termination of the ATC quotas. Clothing imports increased 5.7% between 2004 and 2005, and textile imports rose by 9.1%. By comparison, total U.S. merchandise imports increased by 13.9%.

Instead, as is shown below, there was a pronounced shift in the source of clothing and textiles imports between 2004 and 2005, and an apparent carry-over effect between 2005 and 2006. For clothing, there was a sharp increase in clothing imports from China in 2005, seemingly at the expense of Mexico. For textiles, China was again the main beneficiary in 2005, and Italy and Pakistan were the main losers.

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<sup>9</sup> World Trade Organization, *International Trade Statistic 2006*, Table IV.76 and IV.84.

## Post-ATC Clothing and Textile Imports: The View from the United States<sup>10</sup>

Since 1990, there has been rapid growth in U.S. clothing imports, but comparatively modest increases in textile imports (see **Table 6**). Between 1990 and 2006, U.S. clothing imports rose by \$59.0 billion, or an average annual growth rate of 14.2%. Textile imports, by contrast, increased by \$7.3 billion, or an average annual growth rate of 7.6%. As a result, the value of U.S. clothing imports in 2006 was over six times the value of textile imports.

The pattern of clothing and textile import growth is also worth noting. For both clothing and textiles, the biggest year-on-year increases did not occur in years where quotas were phased out as predicted by the experts. In addition, while the average annual growth rate for clothing imports during the phasing out of quotas (1995-2005) was slightly higher than the years 1991-1994, the average annual growth rate for textile imports was actually lower during the elimination of quotas. Plus, both clothing and textiles experienced year-on-year declines in 2001, possibly indicating that the events of September 11, 2000 may have had a greater effect on U.S. clothing and textile trade than the termination of the ATC.

**Table 6. Growth in U.S. Clothing and Textile Imports, 1990-2006**  
(U.S. \$ Billions)

	Clothing	Textiles	Total
1990	24.4	5.6	30.0
1991	25.1	6.1	31.2
1992	29.8	6.8	36.6
1993	32.2	7.3	39.5
1994	35.1	7.8	49.9
1995	38.1	8.3	46.3
1996	40.3	8.7	49.0
1997	47.5	9.7	57.2
1998	53.3	10.0	63.2
1999	56.4	10.1	66.5
2000	63.7	11.0	74.7
2001	63.3	10.1	73.4
2002	63.8	10.8	74.6

<sup>10</sup> Because the United States utilizes a different method for evaluating imports and exports in its official trade statistics, the values found in tables in this section differ from those listed in Tables 3, 4 and 5. For an explanation of the different definitions used by the United States and their effects on international comparisons of trade data, see CRS Report RS22640, *What's the Difference? — Comparing U.S. and Chinese Trade Data*, by Michael F. Martin.

	<b>Clothing</b>	<b>Textiles</b>	<b>Total</b>
2003	69.6	10.9	80.5
2004	74.8	12.0	86.8
2005	79.9	12.8	92.7
2006	83.4	12.9	96.3

**Source:** U.S. Department of Commerce, Office of Textile and Apparel (OTEXA)

**Trends in Clothing Imports.** The nation that made the greatest gains in the U.S. clothing market between 1990 and 2006 was not China, but Mexico (see **Table 7**). In 1990, Mexico was not among the top five clothing suppliers to the United States, but between 1998 and 2001, it was the clear leader, providing an average of 14.3% of the U.S. clothing imports over those four years. However, since its accession into the World Trade Organization in December 2001, China has overtaken Mexico, increasing its market share from 11.9% in 2001 to 22.6% in 2006. Meanwhile, Mexico's market share has declined from 13.0% in 2002 to 7.4% in 2006.

**Table 7. Top 5 Clothing Suppliers for the United States, 1990-2006**

(Market Share in Parentheses)

<b>Year</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Fifth</b>
1990	Hong Kong (16.1%)	China (14.5%)	South Korea (12.0%)	Taiwan (9.7%)	Philippines (4.1%)
1991	Hong Kong (15.9%)	China (15.0%)	Taiwan (10.2%)	South Korea (8.0%)	Mexico (4.0%)
1992	China (16.5%)	Hong Kong (14.5%)	Taiwan (7.9%)	South Korea (6.8%)	Mexico (4.4%)
1993	China (18.0%)	Hong Kong (12.3%)	Taiwan (6.8%)	South Korea (6.3%)	Mexico (4.9%)
1994	China (15.8%)	Hong Kong (12.3%)	Taiwan (6.0%)	Mexico (5.7%)	South Korea (5.6%)
1995	China (13.3%)	Hong Kong (11.3%)	Mexico (8.0%)	Taiwan (5.2%)	South Korea (4.6%)
1996	China (14.0%)	Mexico (10.2%)	Hong Kong (9.8%)	Taiwan (4.8%)	Dominican Republic (4.3%)
1997	China (14.0%)	Mexico (12.1%)	Hong Kong (8.4%)	Dominican Republic (4.7%)	Taiwan (4.4%)
1998	Mexico (13.7%)	China (12.1%)	Hong Kong (8.4%)	Dominican Republic (4.4%)	Taiwan (4.1%)
1999	Mexico (14.8%)	China (11.9%)	Hong Kong (7.7%)	Dominican Republic (4.4%)	Honduras (3.9%)

Year	First	Second	Third	Fourth	Fifth
2000	Mexico (14.7%)	China (11.3%)	Hong Kong (7.1%)	Dominican Republic (4.1%)	Honduras (3.8%)
2001	Mexico (13.8%)	China (11.9%)	Hong Kong (6.7%)	Honduras (3.8%)	India (3.6%)
2002	China (13.0%)	Mexico (13.0%)	Hong Kong (6.2%)	India (4.0%)	Honduras (4.0%)
2003	China (15.6%)	Mexico (11.2%)	Hong Kong (5.4%)	India (4.0%)	Honduras (3.7%)
2004	China (18.1%)	Mexico (10.1%)	Hong Kong (5.3%)	India (4.2%)	Honduras (3.7%)
2005	China (25.7%)	Mexico (8.7%)	India (5.1%)	Hong Kong (4.5%)	Indonesia (3.7%)
2006	China (29.1%)	Mexico (7.4%)	India (5.3%)	Indonesia (4.4%)	Bangladesh (3.5%)

**Source:** U.S. Department of Commerce, Office of Textile and Apparel (OTEXA)

The other major changes in the top five clothing suppliers for the United States were the gradual disappearance of Hong Kong and the more recent emergence of India. In 1990, Hong Kong was the leading source of U.S. clothing imports, with a market share of 16.1%. During the following 10 years, Hong Kong slid slowly down to be the third leading source of U.S. clothing imports in 2000, with a market share of 7.1%. By 2005, Hong Kong was the fourth largest U.S. clothing supplier, and in 2006, it dropped out of the top five altogether. By contrast, India did not join the top five list until 2001, but since then has rapidly increased its market share and position. In 2006, India was the third largest source of U.S. clothing imports, with a market share of 5.3%.

The biggest annual shift in the source of U.S. clothing imports took place in 2005. China's market share increased by 7.6%, while Mexico's market share declined by 2.4% of total imports. India moved up to third place, providing 5.1% of U.S. clothing imports, while Hong Kong had its share decline to 4.5%. Finally, Indonesia sprang into the top five for the first time, pushing out Honduras.

In 2006, China continued to make gains in the U.S. clothing market, raising its share of imports to 29.1%. Mexico continued to see its clothing exports to the United States drop in market share and in value, emerging with 7.4% of total U.S. clothing imports. India held onto third place, and Indonesia slid into fourth. Finally, another new party to the top five appeared in 2006, with Bangladesh overtaking Hong Kong for fifth place.

**Trends in Textile Imports.** The dynamics of U.S. textile imports since 1990 was similar to the pattern for clothing imports. Previously major sources of textiles were surpassed by countries that were well behind the frontrunners in 1990. However, the pattern for textile imports differs from clothing imports in two ways. First, while China has risen to the top supplier of U.S. textile imports, it is not

dominating the market like it is for clothing. Second, the other top textile suppliers are not experiencing absolute declines in their sales to the United States, as has been the case with clothing.

**Table 8** lists the top five suppliers of textile imports for the United States from 1990 to 2006. From 1993 to 2005, Canada was the leading source of textile imports for the United States. It was superceded in 2006 by China, which had moved up from being the fifth largest textile supplier in 1990 and second in 2003. By contrast, Japan slid from being the leading source of textile imports in 1990 to fourth in 1995 and disappeared from the top 5 in 1996. India, which was not among the top five sources from 1990 to 2001, replaced Italy for fifth in 2002 and moved into third place in 2006.

**Table 8. Top 5 Textile Suppliers for the United States,  
1990-2006**  
(Market Share in Parentheses)

	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>	<b>Fifth</b>
1990	Japan (10.6%)	Italy (8.5%)	Canada (8.2%)	South Korea (7.7%)	China (6.3%)
1991	Japan (10.4%)	Canada (8.8%)	South Korea (8.4%)	Italy (8.1%)	China (6.5%)
1992	Japan (9.7%)	Canada (9.6%)	South Korea (7.7%)	Italy (7.3%)	China (7.1%)
1993	Canada (10.2%)	Japan (9.1%)	South Korea (8.2%)	China (7.0%)	Italy (6.7%)
1994	Canada (11.8%)	Japan (8.6%)	South Korea (7.8%)	Italy (7.7%)	Taiwan (6.1%)
1995	Canada (12.9%)	South Korea (8.1%)	Italy (7.4%)	Japan (6.9%)	China (6.1%)
1996	Canada (14.5%)	South Korea (8.3%)	Italy (7.2%)	Mexico (7.2%)	Taiwan (6.3%)
1997	Canada (14.7%)	South Korea (8.6%)	Mexico (7.6%)	China (6.9%)	Italy (6.8%)
1998	Canada (15.5%)	South Korea (8.3%)	Mexico (7.3%)	Italy (6.4%)	China (6.2%)
1999	Canada (16.2%)	South Korea (8.3%)	Mexico (8.0%)	China (6.5%)	Taiwan (6.0%)
2000	Canada (15.9%)	Mexico (8.5%)	South Korea (8.4%)	China (6.6%)	Italy (6.0%)
2001	Canada (17.0%)	Mexico (8.8%)	South Korea (8.6%)	China (6.3%)	Italy (5.9%)
2002	Canada (16.0%)	Mexico (8.9%)	South Korea (8.6%)	China (7.8%)	India (6.0%)
2003	Canada	China	South Korea	Mexico	India

	First	Second	Third	Fourth	Fifth
	(15.9%)	(9.0%)	(8.3%)	(8.2%)	(6.5%)
2004	Canada (15.1%)	China (9.7%)	Mexico (8.0%)	South Korea (8.0%)	India (6.8%)
2005	Canada (14.4%)	China (13.1%)	Mexico (8.0%)	South Korea (7.9%)	India (7.1%)
2006	China (14.9%)	Canada (13.6%)	India (8.0%)	South Korea (7.6%)	Mexico (7.4%)

**Source:** U.S. Department of Commerce, Office of Textile and Apparel (OTEXA)

Despite the gains of China and India, and the losses of Japan, other contenders — Italy, Mexico, and South Korea — shifted between second and fifth place among U.S. textile suppliers, largely maintained their share of the overall market. Italy, which remained among the top five sources for U.S. textile imports until 2001, still held a market share of 4.9% in 2006. Meanwhile, South Korea's textile market share went from 7.75 in 1990 to 8.65 in 2001 and 2002, to 7.6% in 2006. Similarly, Mexico's market share rose from 7.2% in 1996 to 8.9% in 2002, and declined to 7.4% in 2006.

Although there has been a rearrangement of the order of the top five textile suppliers for the United States over the last 10 years, unlike the case for clothing, China has not pulled away from the other countries. The value of China's textile shipments has risen rapidly since 2001, but was only \$177 million more than textiles imported from Canada in 2006. Canada's textile exports to the United States experienced some fluctuations during the last 10 years, but were still \$324 million higher in 2006 than in 1997. Similarly, textile imports from South Korea and Mexico rose \$250 million and \$224 million respectively between 1997 and 2006.

**Impact of the Quota Phase Out.** As previously stated, the elimination of clothing and textile quotas was done in four phases, starting in 1995 and ending in 2005. Each party to the ATC, including the United States, was to specify when their existing quotas would be eliminated. If the existing quotas were constraining imports, their removal should cause a subsequent increase in imports. U.S. trade data for phases 2, 3 and 4 of the ATC quota removal reveals a more complicated pattern (see **Figure 1**).<sup>11</sup>

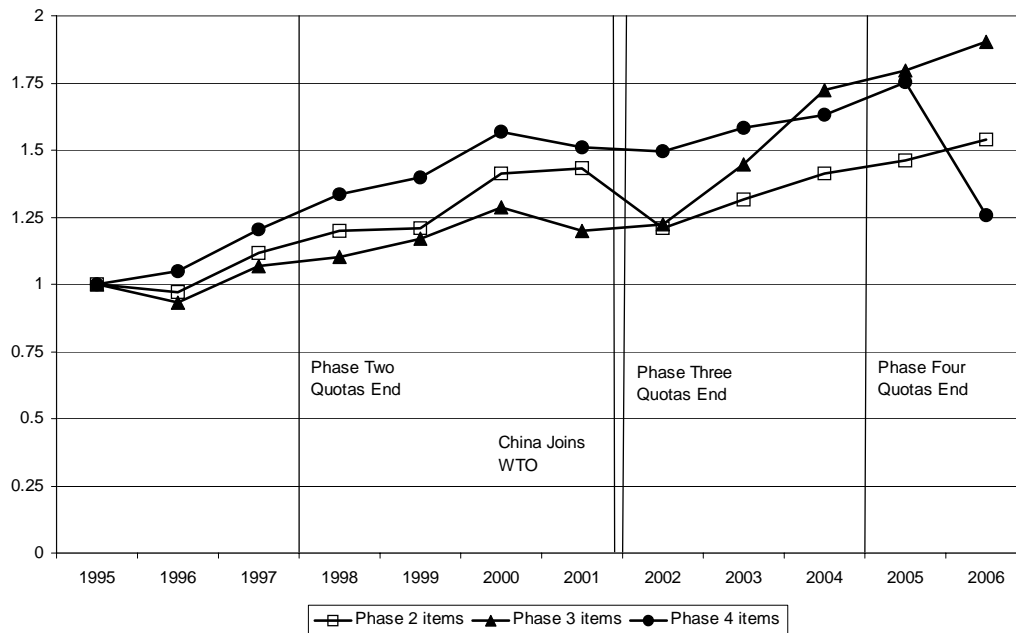
**Figure 1** presents indices of U.S. clothing and textile imports separated into three groups according to when their quota was eliminated. For goods included in phase 2, there was no apparent increase in the growth of imports following the elimination of their quotas on January 1, 1998. Similarly, products included in phase 3 did not jump sharply after the elimination of their quotas on January 1, 2002. Items included in phase 4 did show a modest growth spurt in 2005, but then sharply declined in 2006. In general, **Figure 1** seemingly does not support the idea that the elimination of the quotas was the primary factor leading to significantly increased

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<sup>11</sup> Data for phase 1 of the ATC quota removal was unavailable in time for this report.

U.S. clothing and textile imports. However, there were several mitigating factors that complicate the analysis.

**Figure 1. Indices of U.S. Clothing and Textile Imports by Quota Phase Out, 1995-2006  
(Base Year = 1995)**



**Source:** U.S. Department of Commerce, Office of Textile and Apparel (OTEXA)

The first mitigating factor is China's accession to the WTO in December 2001. As part of becoming a WTO member, China was granted "normal trade relations" (NTR) status by the United States, which liberalized U.S. import policies towards Chinese goods in general. Independent of the ATC quota removals, China's NTR status may have caused an increase in Chinese imports, including clothing and textile imports.

A second mitigating factor was the economic impact of the attacks of September 11, 2001 on U.S. imports. Year-on-year U.S. merchandise imports in 2001 declined by \$11 billion in October, \$15 billion in November, and \$17 billion December. Monthly import volumes did not post a year-on-year increase until April 2002 and did not surpass monthly 2000 levels until December 2002.<sup>12</sup>

A third mitigating factor, which will be discussed below, was the imposition of U.S. safeguard measures on selected Chinese clothing and textile imports before and after phase 4 of the ATC quota elimination. These safeguard measures, ostensibly imposed to protect the United States from "market disruptions," may have

<sup>12</sup> Data from website of U.S. International Trade Commission.

constrained Chinese imports and thereby obscured the effects of quota removals on clothing and textile trade flows.

**Interpreting U.S. Trade Data.** Overall, there are six trends in the U.S. trade data that are of particular note. First, U.S. clothing imports grew faster than textile imports over the last 10 years. Second, the growth in clothing imports accelerated starting in 2003. Third, the year-on-year increase in clothing and textile imports between 2004 and 2005 was not significantly greater than the years before and after. Fourth, for both clothing and textile imports, China and India rose among the leading suppliers. Fifth, the rise of China and India as sources of clothing and textile imports has not meant a major decline in imports from other leading suppliers. Instead, the other major sources of clothing and textile imports have by and large maintained the value of their exports to the United States, but have lost market share due to the increase in U.S. clothing imports. Sixth, U.S. import data, when sorted by the phased elimination of quotas, does not show significant surges in imports following the termination of quotas for two of the three phases considered.

## **Post-ATC Clothing and Textile Exports: The View from China**

According to official U.S. trade statistics, China began its rise to become the top supplier of clothing and textiles for its top trading partner with the start of the new millennium. It appears that the combined effects of China's accession to the WTO in December 2001 and the phased termination of the ATC removed trade barriers that had previously prevented China from exporting more clothing and textiles to the United States.

However, for various reasons, official U.S. trade statistics and official Chinese trade statistics differ — and on occasion, differ quite dramatically.<sup>13</sup> An examination of China's official statistics can determine if they also see a similar rapid rise in clothing and textile trade with the United States. Also, by analyzing China's clothing and textiles exports in general, it is possible to determine if the recent increase in exports is unique to China's trade with the United States, or a more general phenomena.

**China's Clothing Exports to the United States and the World.** Figure 2 provides a look at China's clothing exports to the United States over the last 10 years from China's perspective. For each year, total clothing exports are divided into its three HS chapters — knitted apparel (HS61), woven apparel (HS62) and miscellaneous articles made with textiles (HS63).<sup>14</sup>

In general, the China's clothing export data is similar in scale and trend to U.S. data. There are a few minor differences, however. The United States reports about \$2 billion more in clothing imports from China from 1997 to 2004, with the gap narrowing in 2005 and 2006. Also, the Chinese data shows a rather dramatic spike

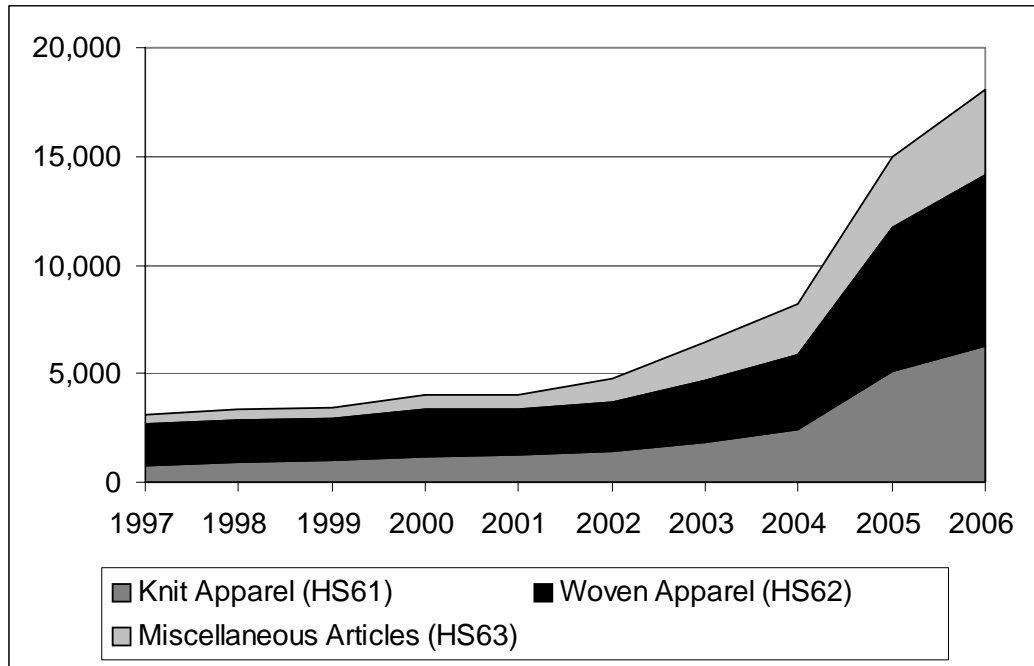
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<sup>13</sup> For more information on the differences between U.S. and Chinese trade statistics, see CRS Report RS22640, *What's the Difference? — Comparing U.S. and China Trade Data*, by Michael F. Martin.

<sup>14</sup> HS63 includes such items as bed linens, blankets, curtains, tarpaulins, and worn clothing.

in clothing exports in 2005, the first year after the termination of the ATC, while the U.S. data has smoother increase in Chinese clothing imports from 2003 to 2006. While these differences may seem minor, they may have political implications that will be discussed later in this report.

**Figure 2. China's Clothing Exports to the United States, 1997-2006  
(U.S. \$ Millions)**

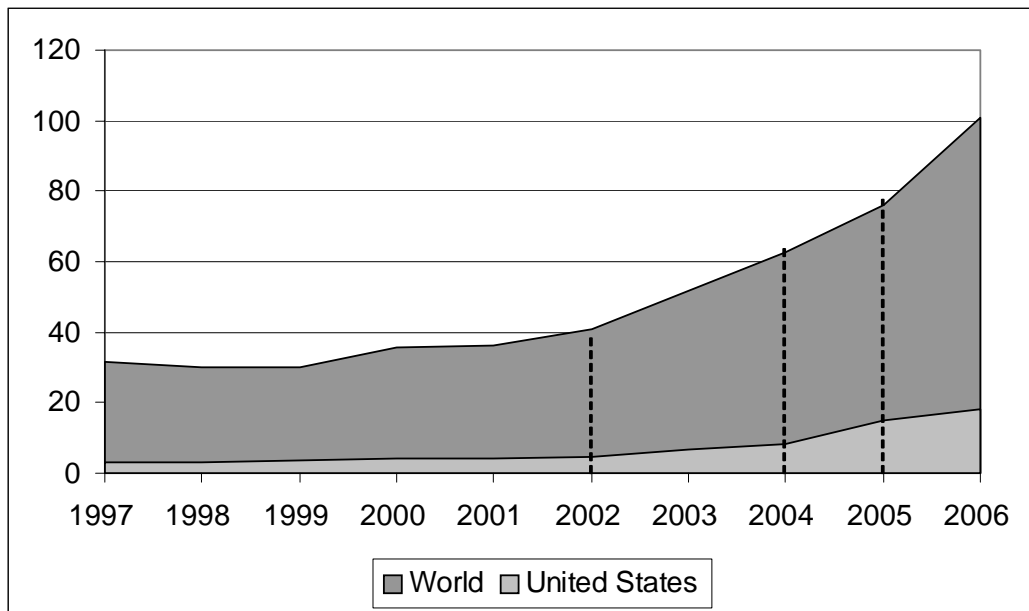


**Source:** Global Trade Atlas

Having established that the Chinese data also reveal a recent jump in clothing exports to the United States, it is important to determine if this is a unique phenomena with the United States or if China's clothing exports are on the rise in general. **Figure 3** compares the rise in China's clothing exports to the United States to its total clothing exports.

The graph reveals two key characteristics of the relationship between China's clothing exports to the United States and its clothing exports to the world. First, the United States captures a small, but growing portion of China's clothing exports. In 1997, the United States received 9.8% of China's clothing exports; in 2006, it represented 18.0% of its clothing export market. Second, China's total clothing exports have risen rather steadily since 2002, but its exports to the United States have grown in a more uneven fashion. Clothing exports to the United States grew by 27% in 2004, 83% in 2005, and 21% in 2006.

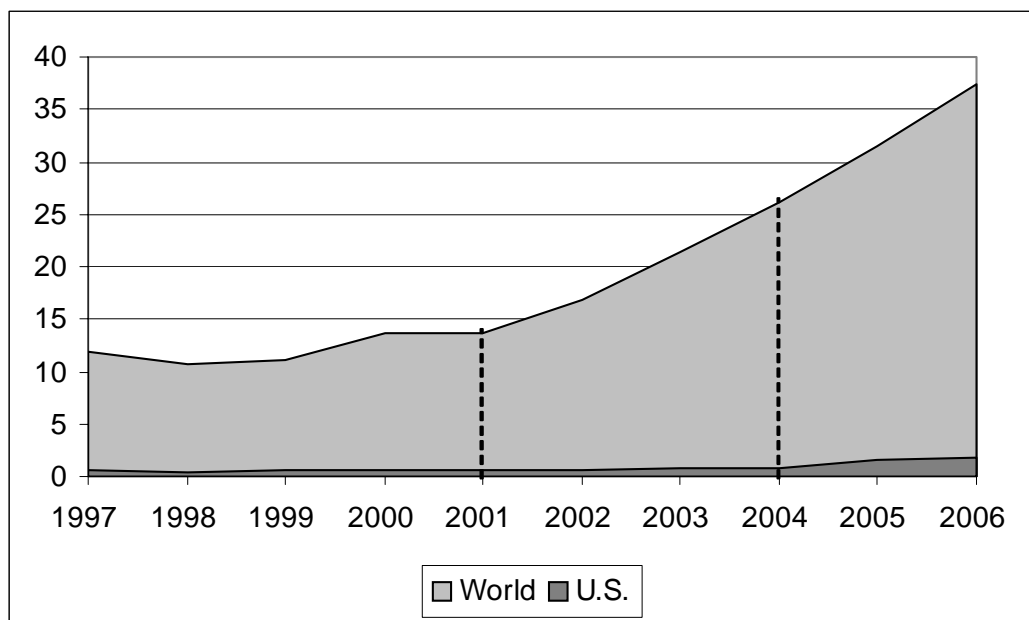
**Figure 3. China's Clothing Exports: U.S. vs. World, 1997-2006  
(U.S. \$ Billions)**



Source: Global Trade Atlas

**China's Textile Exports to the United States and the World.** China's textile exports are worth less than half of its clothing exports, but still contributed over \$37 billion to China's exports in 2006. As shown in **Figure 4**, China's textile exports began a rather steady increase in value starting in 2001, rising more than \$23 billion over five years after several years of little growth.

**Figure 4. China's Textile Exports: U.S. and the World, 1997-2006  
(U.S. \$ Billions)**



Source: Global Trade Atlas

The increase in China's textile exports to the United States also started in 2001, but accelerated in 2005. From 1997 to 2001, textile exports to the United States were nearly stagnant, resulting in a decline in the portion of China's textiles shipped to the United States from 4.2% to 3.7%. From 2001 to 2004, exports to the United States grew, but at a slower rate than total textile exports. Then, in 2005, textile exports to the United States nearly doubled in value from the year before, raising the U.S. market share from 3.2% to 5.3% of China's total textile exports. In 2006, textile exports to the United States increased by about \$100 million, and its market share declined to 4.7%.

## **Comparing U.S. and Chinese Data**

China's clothing and textile trade data provides a picture of Sino-U.S. trade flows that is generally consistent with U.S. trade data. Both countries report rapid growth in clothing and textile trade over the last 10 years, with notable increases following the termination of the ATC. China and the United States have China's clothing and textile exports making a quantum jump in 2005, with a subsequent growth slowdown in 2006.

However, both countries also reveal that the growth in China's clothing and textiles exports predates the termination of the ATC. For both clothing and textiles, there is a notable stepping up of trade levels between 2001 and 2002, with the higher growth rate continuing until 2004. Plus, following the apparent one time jump in 2005, the year-on-year increase in U.S. clothing and textile imports from China in 2006 declined to \$3.6 billion, similar to annual increases from 1991 to 1995.

The data from the two nations also reveal differences between clothing and textile trade. Whereas China has become an increasingly important source of U.S. clothing and textile imports, China is the clear market leader for clothing, but faces continued competition from Canada in the textile market. From the Chinese perspective, the U.S. market increased in importance over the last 10 years, but in the textile market, the United States remains a comparatively small — and possibly declining — outlet for China's textile exports.

One possible interpretation of the trade data is that the United States is more dependent on importing clothing and textiles from China than China is dependent on exporting its clothing and textiles to the United States. According to the data, this possible reliance may be more pronounced for clothing than for textiles. If true, this may have implications for the effectiveness of U.S. pressure on China to redress the growing bilateral trade imbalance by imposing trade remedies on China's clothing and textiles exports.

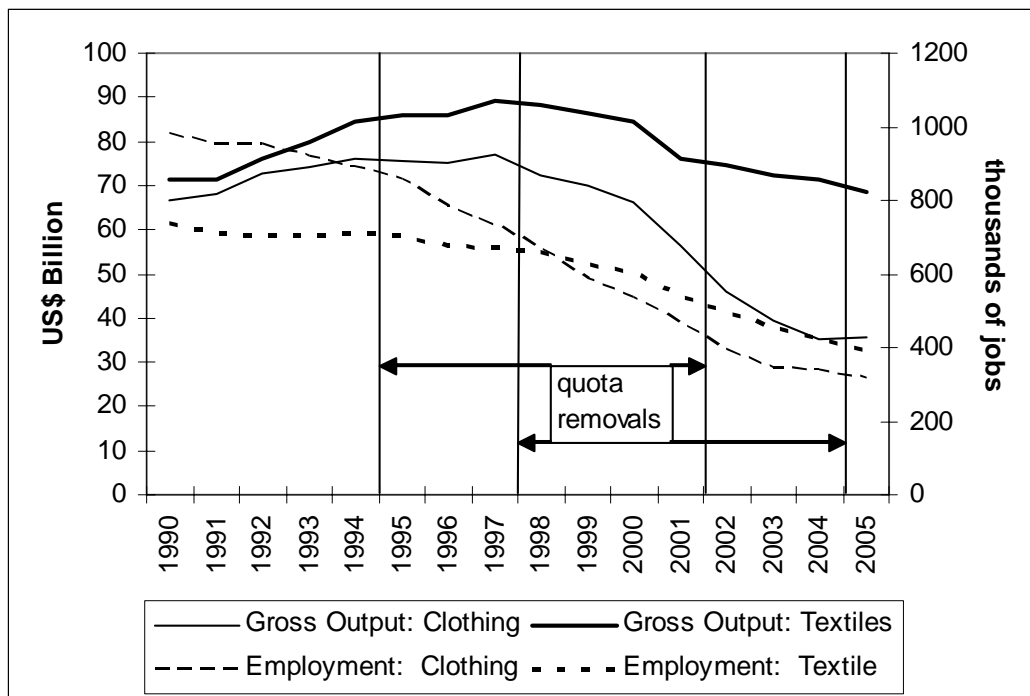
## **Impact on U.S. Clothing and Textile Industry**

Besides the potential effect on the U.S. international trade balance, any increase in clothing and textiles imports brought about by the termination of the ATC could have an impact on the U.S. clothing and textile industry. Faced with an increase in the import of clothing and textile products, some U.S. manufacturers may no longer

be as competitive as before and cut back or cease operations and dismiss some or all of their workers. While it is relatively early, statistics for the U.S. clothing and textile industry provide mixed evidence on the impact of the ATC quota elimination on domestic clothing and textile manufacturing and employment.

**Domestic Production Trends.** Figure 5 shows the gross value of U.S. clothing and textile production employment by U.S. clothing and textile manufacturers from 1990 to 2005. The value of clothing and textile production rose between 1990 and 1997, but employment declined. Starting in 1998, both production and employment for both U.S. clothing and textile manufacturers began to decline.

**Figure 5. U.S. Clothing and Textile Production and Employment, 1990-2005**



**Source:** U.S. Bureau of Economic Analysis, U.S. Department of Labor

Although the recent decreases in domestic clothing and textile production and employment is largely concurrent with the removal of ATC quotas, the timing and pace of these decreases raises some doubts about the significance of apparent correlation. Domestic clothing production was largely unchanged after the phase 1 quotas were eliminated and the value of textile output actually increased. Also, the largest year-on-year reduction in textile production and the second largest declines in clothing production occurred in 2001 — not a year in which quotas were lifted. Plus, while the value of U.S. clothing production has continued its sharp decline since 2001, textile production has nearly leveled off.

Domestic clothing and textile labor trends also pose problems in analyzing the impact of the quota removal, but for different reasons. There was a notable downward trend in domestic clothing and textile employment even before the ATC

took effect. For clothing manufacturers, the peak period for job losses was from 1995 to 2003, which is concurrent with the first three phases of the ATC quota removals, but since then job losses have slowed, even after the fourth and largest quota removal in 2005. For the textile industry, the pace of staff reductions began to pick up after the second quota removal in 1998, implying that the first quota removal had little impact on the industry's employment situation.

While the concurrent decline in the production and employment of the U.S. clothing and textile industry with the rise in clothing and textile imports during the phasing out of the quotas may be interpreted as evidence of an adverse impact on U.S. manufacturers, statistical analysis raises some doubt about such an interpretation. Because there was a preexisting secular decline in the U.S. industry, the staged removal of quotas might or might not have been a contributing factor in the actual production decline from 1998 to 2005. Econometric models examining the relationship between domestic production and imports of clothing and textiles provided mixed results.<sup>15</sup>

**Anecdotal Evidence.** While the international trade data and domestic industry data provide rather ambiguous results on the possible impact of quota elimination on the U.S. clothing and textile industry, there is a fairly extensive pool of anecdotal evidence that the recent increase in clothing and textile imports have had a deleterious effect on U.S. manufacturers. In a April 2005 report on textile safeguard procedures, the Government Accountability Office (GAO) pointed to secular increases in monthly brassiere and sock imports from China as evidence of the domestic "market disruption" caused by the removal of quotas.<sup>16</sup> However, in neither case did the GAO report provide direct evidence that the sharp increase in imports resulted in a drop in U.S. brassiere or sock production or employment.

U.S. clothing and textile manufacturers and their representatives often cite spikes in the import of certain products — frequently, imports from China — as evidence to establish that the removal of quotas has harmed the domestic industry. For example, a June 2003 press release by a coalition of U.S. clothing and textile manufacturers juxtaposed a supposed 140% surge in Chinese clothing and textiles exports between March 2002 and March 2003 with the closure of more than 50 U.S. clothing and textile factories over the same time period, implying a connection between the two events.<sup>17</sup> Similarly, in a July letter to the President, the same

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<sup>15</sup> Econometric models constructed by the author of clothing and textile imports did not consistently support the hypothesis that the removal of quotas were significantly positively correlated with imports, nor did the models consistently support the hypothesis that clothing and textile imports were significantly negatively correlated with U.S. clothing and textile production.

<sup>16</sup> U.S. GAO, "U.S.-China Trade: Textile Safeguard Procedures Should Be Improved," April 2005, GAO-05-296.

<sup>17</sup> "United Textile Industry Demands Action on China Trade Policy," joint press release issued American Textile Manufacturers Institute, American Yarn Spinners Association, National Cotton Council of America, National Textile Association, American Manufacturing Trade Action Coalition, and the American Fiber Manufacturers Association, (continued...)

coalition claimed that Chinese imports of “decontrolled” categories of clothing and textiles had increased 400% in 15 months, and as a result, China “already has captured 40% of the U.S. market in those decontrolled categories and is projected to take between 65% and 75% by the end of the year.”<sup>18</sup> The next sentence then connects the rise in Chinese imports to the domestic industry, saying “To avoid further devastating plant closings and job losses, the U.S. government must move immediately to self-initiate the special Chinese textile safeguard on sensitive textile and apparel categories...”<sup>19</sup> As will be explained below, the United States had already started this process before this letter arrived at the White House.

Increased competition from China need not necessarily take the form of increased imports; it can also come in the form of price competition for some products. For example, although the overall import price indices for clothing and textiles increased during the phasing out of the ATC quotas, the import price index for made up or worn textile items decreased from 104.9 in January 1995 to 94.5 in January 2007.<sup>20</sup> Even without an increase in the quantity of imports, U.S. manufacturers may be pressured to reduce production costs and eliminate jobs due to decreases in the market prices of their products caused by lower import prices.

## **Imposition of U.S. “Safeguards”**

The sharp rise in clothing and textile imports from China after 2001 led to the United States invoking a safeguard provision included in China’s WTO accession agreement.<sup>21</sup> According to the accession agreement, the United States may impose import quotas of textiles and clothing from China if the increase in the value of shipments from China causes “market disruption” in the United States. The terms of the agreement allow the United States to act unilaterally for one year, after which it must consult with the China in order to continue the quotas. This special safeguard provision for Chinese clothing and textile imports expires on December 31, 2008.

The legal authority to regulate the import of clothing and textiles is provided for in section 204 of the Agriculture Act of 1956, as amended (7 U.S.C. § 1854). The administration of safeguard measures was delegated to the Committee for the Implementation of Textile Agreements (CITA) by Presidential Executive Order 11651, as amended (37 F.R. 4699). CITA set forth its procedures for considering

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<sup>17</sup> (...continued)  
by June 11, 2003.

<sup>18</sup> Joint letter to President from the American Textile Manufacturers Institute, American Yarn Spinners Association, National Cotton Council of America, National Textile Association, American Manufacturing Trade Action Coalition, and the American Fiber Manufacturers Association, released on July 7, 2003.

<sup>19</sup> Ibid.

<sup>20</sup> Data from the U.S. Bureau of Labor Statistics [<http://www.bls.gov>].

<sup>21</sup> For a more detailed description of the safeguard measures available to the United States on clothing and textiles from China, see CRS Report RL32168, *Safeguards on Textile and Apparel Imports from China*, by Vivian C. Jones.

safeguard requests for Chinese clothing and textile imports in the Federal Register on May 19, 2003.<sup>22</sup>

Twice in 2003, and again in 2004, coalitions of U.S. clothing and textile manufacturers petitioned the CITA requesting the imposition of quotas on the import of selected Chinese clothing and textile products, arguing that a rapid increase in imports had led to the required “market disruption.” In all three cases, the CITA found on behalf of the petitioners and imposed quotas. Quotas were set for 10 separate clothing and textile categories in 2005 (see **Table 9**).

**Table 9. Chinese Quota Utilization Rate, 2005**

Category	Quota Date	Quota Limit	Amount of Quota Used	Utilization Rate
Combed cotton yarn (301)	5/26/05	1,450,777 kg	1,044,126 kg	72.0%
Hosiery (332/432/632)	11/04/05	10,298,023 dpr	10,298,023 dpr	100.0%
Cotton knitted shirts & blouses (338/339)	5/20/05	4,704,115 dozen	4,704,115 dozen	100.0%
Men’s & boys’ woven shirts (340/640)	5/26/05	2,213,126 dozen	2,213,126 dozen	100.0%
Cotton trousers (347/348)	5/20/05	4,340,638 dozen	4,340,638 dozen	100.0%
Brassieres & support garments (349/649)	9/1/05	7,275,216 dozen	5,203,156 dozen	71.5%
Underwear (352/652)	5/20/05	5,062,892 dozen	5,062,892 dozen	100.0%
Other synthetic filament fabric (620)	9/1/05	12,328,306 m <sup>2</sup>	12,328,306 m <sup>2</sup>	100.0%
Man-made fiber knitted shirts & blouses (638/639)	5/26/05	2,844,383 dozen	2,844,383 dozen	100.0%
Man-made fiber trousers, breeches, & shorts (647/648)	5/26/05	2,660,678 dozen	2,660,678 dozen	100.0%

**Source:** U.S. Customs and Border Protection

**Note:** kg - kilograms; dpr - dozen pair; m<sup>2</sup>- square meters

The 100% utilization of 8 of the 10 quotas was generally seen as support for the idea that safeguards were preventing a more rapid increase in Chinese imports. However, the safeguards also forestalled the full effect of the termination of the ATC.

<sup>22</sup> 68 F.R. 27787.

Some observers were concerned that there would be a second “surge” in Chinese clothing and textile exports to the United States after these safeguards were removed.

Based in part on this fear of a “second surge,” in October and November 2004, even before the ATC quotas were lifted, another coalition of U.S. clothing manufacturers and labor unions petitioned the CITA arguing that the anticipated increase in Chinese imports would cause a market disruption and that the CITA should impose preemptive quotas on certain clothing and textile products. In a move that surprised some observers, the CITA agreed to consider the so-called “threat-based” petitions.

While CITA was considering the various petitions, China and the United States began negotiations on the possibility of restricting the rate of increase of clothing and textile exports to the United States. On November 6, 2005, China and the United States signed the “Memorandum of Understanding Between the Governments of the United States of America and the People’s Republic of China Concerning Trade in Textile and Apparel Products,” or the “U.S.-China MOU.”

The U.S.-China MOU covers most, but not all, categories of clothing and textiles for the years 2006, 2007 and 2008. For clothing, the rate of increase of imports was set at 10% in 2006, 12.5% in 2007, and 15% in 2008. For textiles, the annual allowable rate of increase was set at 12.5% in 2006 and 2007, and 15% in 2008. The enforcement of the safeguards was to be done cooperatively, using an electronic visa information system (ELVIS). Following the announcement of the signing of the U.S.-China MOU, CITA terminated its consideration of the pending petitions.

Administrative oversight of the U.S.-China MOU is handled by U.S. Customs and Border Protection in the United States, and the Ministry of Commerce in China. Under China’s provisional “Measures for Administration on Textile Export,” export visas are allocated among Chinese exporters via an electronic bidding process. As a result, Chinese exporters must pay for the opportunity to export restricted clothing and textiles to the United States.

In 2006, none of the 22 separate quotas established in the MOU were fully utilized, according to U.S. Customs and Border Protection (see **Table 10**). Only four categories were more than 80% utilized and one — category 666, that includes bed linens, table linens, and curtains — used less than 4% of its quotas.

**Table 10. Chinese Quota Utilization Rates, 2006**

Category	Quota Limit	Amount of Quota Used	Utilization Rate
Sewing thread & combed cotton thread (200/301)	7,529,582 kg	2,908,267 kg	38.6%
Knit fabric (222)	15,966,487 kg	8,793,627 kg	55.1%
Special purpose fabric (229)	33,162,019 kg	10,287,255 kg	31.0%
Hosiery (332/432/632-T)	64,386,841 dpr	52,248,897dpr	81.1%

Category	Quota Limit	Amount of Quota Used	Utilization Rate
Hosiery (332/432/632-B)	61,146,461 dpr	50,379,835 dpr	82.4%
Cotton knitted shirts & blouses (338/339)	20,822,111 dozen	17,312,792 dozen	83.1%
Men's & boys' woven shirts (340/640)	6,743,644 dozen	4,448,302 dozen	66.0%
Cotton trousers (347/348)	19,666,049 dozen	16,957,810 dozen	86.2%
Brassieres & support garments (349/649)	22,785,906 dozen	17,092,076 dozen	75.0%
Underwear (352/652)	18,948,937 dozen	13,559,347 dozen	71.6%
Swimwear (359-S/659-S)	4,590,626 kg	3,008,608 kg	65.5%
Cotton terry towels (363)	103,316,873 pieces	65,595,880 pieces	63.5%
Men's & boys' wool suits (443)	1,346,082 pieces	944,964 pieces	70.2%
Men's & boys' wool trousers (447)	215,004 dozen	125,961 dozen	58.6%
Polyester filament fabric (619)	55,308,506 m <sup>2</sup>	16,373,057 m <sup>2</sup>	29.6%
Other synthetic filament fabric (620)	80,197,248 m <sup>2</sup>	12,683,295 m <sup>2</sup>	15.8%
Glass fabric (622)	32,265,013 m <sup>2</sup>	13,240,038 m <sup>2</sup>	41.0%
Man-made fiber knitted shirts & blouses (638/639)	9,060,063 dozen	6,511,836 dozen	80.8%
Sweaters (345/645/646)	8,179,211 dozen	4,967,242 dozen	60.7%
Man-made fiber trousers, breeches, & shorts (647/648)	7,960,355 dozen	6,360,986 dozen	79.9%
Window blinds/window shades (666)	964,014 kg	36,584 kg	3.8%
Silk blend & non-cotton vegetable fibre trousers (847)	17,647,255 dozen	12,845,243 dozen	72.8%

**Source:** U.S. Customs and Border Protection

**Note:** kg - kilograms; dpr - dozen pair; m<sup>2</sup> - square meters

The under-utilization of the 2006 safeguard quotas raises questions about the impact of the protective measure. Some analysts have interpreted the excess quota as evidence that the fear of a “second surge” was misplaced, and that the market adjustments to the termination of the ATC took place in 2005. Others, however,

believe that U.S. importers became very risk adverse in 2006, and intentionally avoiding purchasing constrained products from Chinese suppliers in 2006.

## Interpreting Pre- and Post-ATC Trade

In general, the trade data confirm many of the predictions by the market analysts prior to the termination of the ATC quotas. Global clothing and textile trade is growing more rapidly after 2005 than it did before 2005 and China is a major beneficiary of the greater growth. China secured nearly three-quarters of the year-on-year increase in clothing trade between 2004 and 2005, and its increase in textiles exports between 2004 and 2005 was slightly greater than the total rise on global textiles trade. Plus, as predicted, the United States is importing more of its clothing and textiles from China.

However, when examined more closely, there are patterns in the trade data that either were not anticipated or are not consistent with some of the analysts' predictions. For example, while there has been the expected market growth, both in the global and U.S. market, the foreseen major shifts in production have not occurred. Instead, the data suggests that most nations were able to maintain the *value* of their clothing and textiles exports after the termination of the ATC quotas, possibly indicating that the preferential trade programs were helping some nation's clothing and textile trade. However, most countries were unable to significantly increase their exports, while China — and to a lesser extent, India — were able to expand their exports. In other words, China was able to increase its *share* of the global and U.S. clothing and textile markets by capturing most of the market growth.

Also, the “surge” in Chinese clothing and textile exports in 2005 was smaller than many analysts suggested it would be. For example, China's shares of the U.S. clothing and textile markets in 2006 — 29.1% for clothing and 14.9% for textiles — is well below the levels projected by the ATMI study. This in part may be due to the imposition of safeguard measures in 2005 and 2006. However, the under utilization of the U.S.-China MOU quotas in 2006 may indicate that much of the increase in Chinese clothing and textile exports has passed.

Similarly, U.S. clothing and trade data and industry figures for the U.S. clothing and textile industry present a mixed picture of the impact of the end of the ATC quotas on U.S. clothing and textile production and employment. The value of U.S. clothing textile production rose during the initial stages of the ATC quota phase out, with the major declines starting after China's WTO accession. By contrast, employment for both the clothing and textile industry declined steadily from 1990 to 2005, but not necessarily concurrently with the elimination of quotas. As previously discussed, the U.S. utilization of safeguard measures may have mitigated some of the negative impact of the termination of the ATC quotas. However, the fact that the 2006 quotas were not fully used would seem to indicate that the safeguards are not necessarily preventing Chinese imports from sub-planting U.S. manufacturers and workers.

An unanticipated — and perhaps, unpredictable — trend in the U.S. trade data was the substantial rise in clothing and textile imports starting prior to the end of the ATC quotas. In the clothing market, U.S. total imports jumped by \$5.8 billion in 2003, touching off a four year run of rapid increases. In the textile market, the big increase in total imports occurred in 2004 — not in 2005 or 2006. Besides the possible effects of the safeguard measures, another possible explanation for the pre-ATC termination growth was China's accession to the WTO in December 2001.

One final prediction that proved to be comparatively accurate was the use of trade remedies by the United States. Yet, there are two aspects of the use of trade remedies that the analysts did not foretell. First, the “pre-emptive” petitioning of the CITA for safeguard measures prior to January 1, 2005 was unprecedented. Second, following the announced preliminary countervailing duty decision by the U.S. Department of Commerce on Chinese coated paper, there are reports that a coalition of U.S. clothing and textile companies is consulting with lawyers about initiating a claim against Chinese clothing and textile imports.<sup>23</sup>

## Implications for Congress

The termination of ATC quotas in 2005 and the ensuing growth of clothing and textile imports, regardless of any causal relationship between the two events, have added clothing and textile trade to growing list of bilateral trade issues between the United States and China. To a limited degree, the accelerated growth in Chinese clothing and textiles exports to the United States over the last few years has contributed to mounting U.S. bilateral trade deficit.<sup>24</sup>

One of the unanswered questions raised by the imposition of quotas under the U.S.-China MOU is if there will be a “surge” in Chinese imports if the quotas lapse at the end of 2008. If there is such a surge, it is also uncertain if U.S. manufacturers will choose to respond by petitioning the CITA for the imposition of safeguard measures under the general safeguard mechanism (available until 2013) or pursue the matter with the U.S. International Trade Commission by requesting countervailing duties.

In either case, current trends in the U.S. clothing and textile markets dovetail with several legal issues that Congress may choose to address. Several bills have already been introduced — H.R. 708, H.R. 1229, and S. 974 — that address the application of countervailing duties to non-market economies, such as China.<sup>25</sup> Other legislation — H.R. 321, H.R. 782, H.R. 1002, S. 364, and S. 796 — seek to reduce

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<sup>23</sup> “Chinese Textile Exporters to Face New US Probe,” *The Hindu*, May 16, 2007.

<sup>24</sup> For more information on the rising bilateral U.S. trade deficit with China, see CRS Report RS22640, *What's the Difference? — Comparing U.S. and Chinese Trade Data*, by Michael Martin, and CRS Report RL33536, *China-U.S. Trade Relations*, by Wayne M. Morrison.

<sup>25</sup> For more information on China and countervailing duties, see CRS Report RL33536, *China-U.S. Trade Relations*, by Wayne M. Morrison.

the rise in Chinese imports by addressing China's alleged policy of intentionally undervaluing its currency."<sup>26</sup>

In addition, the continued decline in clothing and textile employment in the United States raises the possibility that U.S. clothing and textile manufacturers and workers may seek trade adjustment assistance.<sup>27</sup> On March 28, 2007, the Trade Adjustment Assistance Reform Act of 2007 (H.R. 1729) was introduced, seeking to amend the Trade Act of 1974 to provide greater eligibility for clothing and textile workers for assistance, as well as to increase federal funding for the assistance program.

Finally, the apparent ability of most nations to preserve their clothing and textile export volumes to the United States despite the rise in Chinese goods may signal that the various trade promotion programs are proving beneficial. Programs such as GSP, the Andean Trade Preference Act, and the Caribbean Basin Initiative may protect and promote the development of competitive industries in less industrialized nations. Similarly, free trade agreements — such as the North American Free Trade Agreement — may help provide the edge clothing and textile manufacturers in beneficiary countries need to compete against Chinese suppliers. With several of these trade preference programs coming up for renewal — and a number of free trade agreements possibly coming up for ratification — Congress may wish to consider the case of the clothing and textile industry in the post-ATC era as part of their deliberations.

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<sup>26</sup> For more information on the alleged undervaluation of China's currency, see CRS Report RL32165, *China's Currency: Economic Issues and Options for U.S. Trade Policy*, by Wayne M. Morrison and Marc Labonte.

<sup>27</sup> For more information about trade adjustment assistance, see CRS Report RS20210, *Trade Adjustment Assistance for Firms: Economic, Program, and Policy Issues*, by J. F. Hornbeck.